

A Note Of Caution: The International CPA Designation

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ABSTRACT

The National Association of State Boards of Accountancy (NASBA) is pursuing initiatives to make the U.S. Uniform CPA Examination more accessible to candidates outside of the United States. At the heart of their plan is a desire to ensure that the U.S.-CPA retains its position as a gold standard in the world of professional accountancy. Over the last 15 years, the author has been involved with programs directed at Japanese candidates for the U.S. CPA exam. This paper suggests that the international initiative of NASBA needs to be reconsidered from the perspective of an Asian candidate for the U.S. Uniform CPA Examination. That perspective reveals some unintended consequences for the U.S. CPA designation. This paper explores those consequences in order to draw attention to them. Any policy initiative should maintain the successful balance of education, experience, and technical examination that has created the great value and respect afforded to those with a U.S. CPA license.

Keywords: U.S. uniform CPA exam; NASBA/International CPA; professional qualifications; accounting education; CPA; Maine; 150-hour rule

INTRODUCTION

Accountants with a CPA designation in the United States of America enjoy a publicly granted monopoly. That monopoly protects their scope of practice in exchange for their commitment to ethical conduct. Their ethical conduct elevates the trust that society at large can place in the financial system. Recent financial failures illustrate how fast a private ethical failure can diminish that trust. We can also see painful consequences born by innocent third parties. Historical circumstances have left professional licensing and education in the hands of the state level of government. This administrative vestige, from a time when the economy was local and regional, leaves the system of licensing in the hands of state agencies. Those agencies operate in the context of local, provincial politics. When licensing is seen through the pragmatic eyes of a small statehouse, it is easy to miss some long-term and international implications. This paper argues that international perceptions should be treated as a constraint in the process of earning a U.S. CPA.

Public accountants must satisfy three types of scrutiny in order to become a CPA in the United States: 1) formal education, 2) technical examination, and 3) work experience. Licensure is granted by state governments, but there has been, until recently, a high degree of national coordination. Some jurisdictions, such as the State of Maine, have made changes in the way they administer these three processes to meet practical administrative challenges. We have to be very careful that the changes do not open the door to circumstances that could taint the CPA brand in the public eye and thereby reduce the profession's attractiveness to college-bound students. International students who may want to earn a U.S. CPA designation are in circumstances that are, in the pejorative sense, foreign to statehouse deliberations regarding licensure. The general purpose of this essay is to insure that the foreign context does get considered when states are forming policies regarding the U.S. CPA.

The National Association of State Boards of Accountancy (NASBA) is asking for state boards to consider changing the standards applied to new U.S. CPA candidates. Their first concern in doing so is to ensure there are an adequate number of new accountants (NASBA, 2008). In the short-run, the most obvious factor effecting supply is the relative cost of entry compared to other professions competing for the same talented undergraduates. There has also been a split among the states regarding the requirement for 150 hours of university credit as a requirement for

licensure. Some states have responded by relaxing the qualifications needed to write the CPA examination. Rather, they ask candidates to complete additional requirements following the exam, but before finally granting them a license. Such changes place the CPA brand at some risk in the international setting.

Recent history should increase our concern for vulnerable individuals, especially when they are not party to the nuances of the U.S. CPA licensing process. There can be no question that the brand is vulnerable. How did David Friehling, CPA, fail to notice that the existence of \$50 billion dollars of assets reported by Bernie Madoff could not be verified? What social process caused auditors of US Banks to determine mortgages were secure when the debtors did not have sufficient income to carry the loans? There are a lot of third parties in society, beyond the view of the statehouse, that rely on the gate keeper's veracity. It is therefore necessary to be very careful when changing the underlying USA-CPA licensure process? This paper will specifically explore those requirements, the implications for international students, and some of the unintended consequences. Every CPA shares in the loss of prestige when vulnerable individuals are harmed by relying on the quality implied by the U.S. CPA designation.

THREE-LEGGED STOOL OF PROFESSIONAL PREPARATION

A three legged stool is simple and stable structure. Professional education in the U.S. has been quite successful. Like a stool, it is based on three foundations which have provided stable trustworthy results. The first leg is a general education in liberal arts that is refined through specific professional courses. Education is balanced with a requirement for relevant professional experience. Work, under the direction of an experienced professional, ensures that the cultural context of professional work is understood. The third leg is a formal examination whereby the candidate demonstrates adequate technical skills. The U.S., Canada, and Israel allow the technical exam any time after the formal education. Other countries follow the example of the U.K. and Japan that offer examinations in stages as work experience progresses following formal education. Regardless of the staging, the candidate does not complete the final technical examination until after first being tested through formal education and work experience.

The full benefit of the educational component has to be understood. Over the last 50 years, we have steadily increased the amount of formal education and evaluation prior to the start of practical training and professional recognition. Glen Van Wyhe (1994) traces the progression in his book entitled "The Struggle for Status: A History of Accounting Education." He explores the circumstances that moved us from an apprenticeship model through to the graduate school model of today. Sound training in the liberal arts is needed to function in today's professional environment. Professionals are expected to understand the societal context of their work in our increasingly interdependent world. Technical courses in accountancy are only a small part of that educational component.

Practical experience compliments the educational component. Nobody would consider a nurse or pilot competent on the basis of an academic course. Experience allows the aspiring CPA to see how the curriculum is applied in a business setting. During this time, the suitability of the candidate's character and aptitude for the work environment is also examined. It is a process through which the profession is assured that the student is able to put their academic training to use. There is a strong base of evidence showing the valuable role experience plays in the selection and filtering of candidates. A "theoretical" accountant would be no more useful in business than a pilot who has only studied the theory of aerodynamics. Taken together, education and experience validate the aspiring CPA's progress.

The U.S. Uniform CPA examination comes near the end of the qualification process. Academic credit indicates that a student had knowledge at the end of a course. When it comes to technical expertise, the aspiring CPA must also show they have retained that knowledge as they enter the profession. It is the first of many commitments they will make to remain competent. This placement emphasizes that the true value of the U.S.-CPA designation lies in the competitive contribution current CPAs make to their employers and clients. Value is created from the sum of experiences that make up the qualification process - university study, examination preparation, and work experience. Each part of the process plays a role in the formation of professionals who can create value.

Accounting professors can attest to the positive impact of the U.S. Uniform CPA Exam on the educational process. Accountants enjoy increased market rewards from the publicly granted monopoly they are granted. Students are attracted by the rewards and privileges of that status. The academic standard of technical competence is set by the U.S. Uniform CPA Exam. It is external to the colleges. This provides accounting professors the power to push their students to a high level of achievement. Accounting classes have a well earned reputation for being hard. The professor's power is derived from the value the student expects to accrue from the monopoly extended by legislators to a licensed U.S. CPA. The quality of education a candidate receives is therefore enhanced because of the U.S. Uniform CPA Exam prerequisite requirement.

Requests from individual players to streamline the process of professional qualification are inevitable. Today's college student takes a very instrumental approach to education. In this circumstance, the minimum requirement often becomes the upper limit of their effort. Students will be quick to act on any change in requirements. Statehouses face tight budgets that cause an extreme need to reduce the cost of services, such as the licensing bureau and university programs. The 150 credit-hour requirements create an additional cost for publicly funded universities. In each case, the push back is due to their individual institutional circumstances.

We have explored how the three-legged structure of education, experience and examination has created the basis of a successful CPA licensing process. The professional competency of a new CPA derives from the entirety of the process. Responses by NABSA to a push back against costly aspects of the process by any one of the many parties involved in that process must be considered carefully. The individual players in the process that have an incentive to push back against the requirements lack accountability for the overall outcome. We have to remember that the stability of the three-legged stool can easily be lost. So, a change as seemingly unimportant as the timing of the U.S. Uniform CPA exam can have unintended negative consequences. With so much at stake in terms of the value of the U.S. CPA designation, each change should be examined in terms of the entire process.

INTERNATIONAL STUDENTS' PERSPECTIVES

Every year thousands of students living abroad prepare to take the U.S. CPA examination. In some cases, the student takes this route because their native CPA is so hard to achieve, making the U.S. CPA the next best thing. Others do it to gain an advantage in the promotion queue within multi-national firms. Some students also pursue the U.S. CPA to gain an immigration advantage. Excellent university education in Asia is not based on our values of a formative liberal arts curriculum. We do, however, admit students to the CPA exam on the basis of foreign university credit. Therefore, changes we make to our university requirements are interpreted differently in Asia. Since we admit foreign students to our exams, we should also take time to view the process from their perspective.

During 2007 the State of Maine made an administrative change to the CPA licensure process for their state. The licensing bureau processed many applications for licensure in the state. A significant number of the applicants fail the U.S. Uniform CPA Examination, so they never earn licensure from the state. Processing the academic records of the applicants who failed the exam was therefore seen as a wasted cost to the taxpayers. They wanted to limit the important and costly process of examining academic records to those applicants that had passed the exam. This appears to be a rational reordering of the process since employers expect their accountants to be licensed. Students also benefit because the time-consuming aspects of the application are delayed until all the requirements are fulfilled. On the surface, the administrative change had no conceivable downside or risk to the quality of a licensed CPA in the state of Maine. Other states are considering similar moves to their process.

One way to evaluate this change is to examine the impact it had on the number of candidates for the U.S. Uniform CPA Examination. Demand for the examination can be found in the annual report NASBA publishes entitled "Candidate Performance on the Uniform CPA Examination: Reports and Commentary on the 20XX CPA Examination" (NASBA, 2007, 2009). The 2009 report reveals there were 85,362 candidates across the U.S. in 2008, which is a 23.1% increase from the 69,259 candidates in 2006. The year 2008 was when the change in Maine's procedure became known. Maine experienced 93.5% increase in its candidate count to 725. This increase is even more startling in relation to the state of New York. Based on population figures from the U.S. Census Bureau, Maine has 5.5 candidates per 10,000 of population and New York has 4.1. New York is the home of our financial capital, so it would be reasonable to expect the demand for U.S. Uniform CPA examinations to be higher, not lower, than in the state of Maine!

It is an error to believe that international interest in the U.S. CPA is solely due to a perception of quality. The decision to abandon U.S. GAAP and transition to the International Financial Reporting Standard is also a factor. Soon the U.S. Uniform CPA exam will represent the same accounting standards used in the U.K., France, India, Japan, and even China. Some Asian countries, such as Japan, have very tight quotas on their equivalent of the U.S. CPA. Others have control problems that diminish employers' ability to rely on the credential as an assessment of skills. These factors make the U.S. CPA a reliable indication of professional competence in a global marketplace. Depending on the country, the U.S. CPA might then also be the easiest way to demonstrate that competency. We then have to keep in mind what an Asian employer is looking for from the designation. Many would not check for licensure because it is not relevant to them. Outside of the U.S., it is the exam and not the license that matters. As a consequence, an Asian employee may receive recognition solely on the basis of their U.S. CPA examination result.

The competitive job market is another factor adding to students' pragmatic view of education. They view educational requirements as items on a to-do list. Formal education is rarely viewed as a meaningful formative experience. The recent book "Academically Adrift" (Arun and Roksa, 2011) reveals that the connection between university and professional preparation has been lost. Students no longer find purpose in education that does not directly relate to the requirements of their profession. It is a paradigm of strict instrumentality. Professors are challenged to explain the relevance of their subject to their students' perceptions of job requirements. Today's accounting student simply wants to find the shortest route to a U.S. CPA examination and places a high value on taking a CPA exam preparation course. This change is even greater in Asian economies where the instrumentality of a qualification is a deeply imbedded social concept. In other words, you do what is necessary to get the credential; the meaningful training takes place on the job.

For these students, the change in Maine is well received because it brings the U.S. Uniform CPA examination closer to them. They can shop for the most efficient degree and get right into a cram course for the examination. Our western perspective causes us to wince when thinking of students going this route because of the expected failure rate. The result has been surprising. Many, if not most, of the Maine candidates are believed to be Asians attracted by the simpler access to the U.S. Uniform CPA examination. The NASBA report reveals that in 2008, the Maine candidates had a 63.8% pass rate on the FAR section compared to 54.4% in 2006. Compared to New York that would appear to have higher requirements to gain access to the examination, the outcome is again startling. The first time pass rate in New York was 53.0% in 2008 and 49.2% in 2006, so the influx of candidates on the cram school route actually improved the Maine results. There is a temptation to then say that university education and requirements do not make a difference. That is an unintended consequence meriting careful exploration.

UNINTENDED CONSEQUENCES

Every decision triggers unintended consequences. These unintended consequences are not necessarily negative. They are also so far removed from the decision-maker that it would be an unreasonable waste of time for the decision-maker to consider them. For example, we would not expect someone deciding to cancel a flight reservation to consider or anticipate the benefit their open seat will be to the next person in line. However, there are times when we become aware of consequences that were not anticipated that do matter to the decision-maker. The progressive development of the U.S. CPA qualification process can be seen through this lens. Feedback from employers and CPA firms concerning the qualification and supply of accounting professionals is considered. The distant international market for the U.S. CPA designation may be an understandably low priority for state boards of accountancy. Within a historical context, we can see that they are not so distant that we can ignore them.

The author has had direct involvement in the Asian market for the U.S. CPA designation since 1996, including Japan, Korea, China, and Russia. Until the mid-90s, there were many "cram" schools that prepared a flood of candidates for the U.S. Uniform CPA examination. The pass rate for these students was abysmal, so the state boards of accountancy created more stringent requirements for U.S. university credit, including some specific requirements for accounting courses. This forced thousands of students into U.S.-style credit courses. In general terms, Asian university courses do not have a liberal arts focus. A high value is placed on technical content in contrast to our emphasis on critical thinking. As a consequence, students struggled with the U.S. accounting courses. The introduction of educational requirements filtered out those who were not willing to develop the necessary critical thinking skills. It also forced many of the purely "cram" schools out of the market. In the absence

of cram schools, fewer students were tempted to spend money on a program of study that was based on an unrealistic understanding of the required professional preparation.

By 2002, at least four universities (University of Nevada-Reno, University of Montana-Billings, University of California-East Bay, and the University of Guam) had created valuable international partnerships as a result of the tighter academic rules. Cram courses are an effective tool for success in Japan. These schools emphasize previous exam questions and memorization of answers. Prior to the rule change, a great number of cram schools were able to play on this cultural norm to sell packages to families that wanted to create an opportunity for their students. In order to survive, the best of these schools modified their programs in partnership with U.S. universities to create the required formative undergraduate educational opportunities. The additional requirements caused a substantial drop in the number of candidates. These universities benefited from the additional tuition during the dot.com recession and gained valuable international exposure for their faculty and domestic students. This was a pretty good gain from a policy change aimed at increasing the pass rate on the U.S. Uniform CPA examination.

Our first-hand experience with this recent history shows that the eligibility requirements for the U.S. Uniform CPA examination affect student behaviour, so we want to draw attention to the Maine policy change and the proposals brought forward by NASBA. Consider the practical application of the Maine change. They will permit a student to take the U.S. Uniform CPA examination after 120 credit hours. The 150-hour requirement and requirements regarding specific U.S. accounting courses are deferred to the end of the process when licensure is granted. This increases the attractiveness of the CPA and accountancy in the U.S. Students can apply for the exam in their senior year at a time when they have recently completed the most important technical courses. It is a practical solution since CPA firms require licensure and employers expect it. There is no such cultural norm in Asia. For them, the NTS letter disclosing their success on the U.S. Uniform CPA exam is a de facto NASBA CPA certificate. As a result, the marketing message of the cram school approach is valid again. We have witnessed a surge in the number of cram schools and the number of students. This was also indicated by the Maine numbers mentioned earlier in this paper. There is no way to force a student to license after the exam, nor is there a way to withdraw the NTS letter. The AICPA has no enforcement power in Asia. The change, therefore, opens an easy route for many (not all) to trade on the value of a U.S. CPA within their specific Asian employment market.

Easier access to the U.S. Uniform CPA exam creates a couple of business risks that are not readily apparent in the context of the U.S. business environment. First, we have opened up a shortcut that will be attractive to a large number of students in Asia because a license is unnecessary for them. These students lack the academic training in critical thinking and the supervised work experience the designation normally represents. Without these elements, their ability to create value as their professional skill set is diminished. Eventually, an accumulation of disappointed employers and clients will tarnish the reputation of the U.S. CPA designation in Asia. This will make it more difficult for U.S.-based CPAs to compete for legitimate international opportunities. A second consequence will be the cost to U.S. businesses with investments or subsidiary clients in Asia. One can imagine a situation where a business loss occurs and it is discovered that they had relied on a “fake” CPA. It will get even worse when it comes to light they had passed the CPA examination without the regular qualifications. The risk of these losses returns us to the metaphor of the three-legged stool. We know that the three legs of education, experience, and examination (in that order) form a sound basis for entry into the profession. Why then would we open a route that eliminates two of the three legs for candidates? It becomes especially crucial when the candidates are foreign jurisdiction, so we know in advance they will be hard to monitor and regulate. A one-legged stool is not stable.

CONCLUSION

In the 1970s, we started a 15-year technology boom, in part, by relaxing historic asset valuation rules regarding intangible assets. In the 1990s, we started a housing boom by relaxing historic lending margins. Liberalization of the accounting requirements by the state of Maine and others has initiated a boom in registrations at cram schools throughout Asia. When NASBA proposes that we relax certain academic requirements for the CPA examination, they are making a rational response to the demands and expectations of international candidates. The change will not reduce the value of the U.S. CPA tomorrow or even next year. That does not mean there is no moral hazard. Pragmatic solutions to immediate problems rarely lead to wise long-term strategies. There are a significant number of international students passing the U.S. CPA exam under the rules for the state of Maine. Most will never earn a CPA license or complete the educational and experience requirements we expect in the U.S. The purpose of

this paper was to explore unintended consequences of granting some candidates premature access to the U.S. Uniform CPA exam.

We are in a risky time as it is not possible for every CPA to evaluate the impact that the proposed changes will have on the value of their designation in this global setting. The implementation of IFRS makes it clear that the value of the U.S. CPA license does not come from the superior quality of U.S. GAAP. The value is not based on the superior quality of our professors as we know many business schools around the world also have excellent faculty. Our examination is also not the source of value as it is clear that other national accounting bodies, such as those in Japan, India, and the U.K., have exams that are technically more demanding. It is the combination of requirements that give a U.S. CPA a globally competitive set of professional competencies. That has been the genius of our innovative culture. The combination includes formal education, technical assessment, and experience. Our reputation is built on the consequential outcomes of the current system. A shallow understanding of the contributions made by each part of the system put the long-term reputation of the designation at risk. In other words, it is easy to forget that the whole process works together like the legs of a stool.

Over the last ten years, the AICPA has devoted a great deal of energy into promoting international versions of the U.S. CPA. It is easy to see how the vested interests of the many agencies with a role in regulating the U.S. CPA designation contribute to that energy. Professors Campbell and Howard (2008) argued for internationalization in their CPA Journal article entitled "Threats to the CPA Credential in the International Marketplace." This paper tries to show the error of that position because of the U.S. centric analysis is inadequate for a global situation. Even though the AICPA membership has voted to reject an international designation, the pressure or temptation did not end. Universities offering overseas credit face pressure from their Asian partners for a system that increases revenues. They can gain a competitive advantage if the curriculum more closely reflects the style of Asian professional education. Anything that reduces the number of exam takers also adversely affects the revenue from the exam fees that go into NASBA and the state boards. It is true that the changes in Maine leave the entire package of education, experience and examination intact. However, the change in sequence is significant and opens the U.S. CPA brand to be abuse that we may not perceive from a U.S. centric view. International access to the U.S. Uniform CPA exam should not result in unequal access. An unintended consequence of changes made in Maine and proposed by NASBA are doing just that. The best course of action is to protect the designation by ensuring education and professional experience as prerequisites for the examination.

AUTHOR INFORMATION

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